

**Investment Policy of the
City of Falls Church Basic and Police Pension Plans
Res. 2020-22 (TR20-25) Retirement Board May 2020; Council June 2020**
Proposed revisions to Retirement Board September 2020

Commented [CM1]: Proposed revisions to IPS with corresponding Basic and Police Pension Plan amendment to remove Exhibit V. Exhibit V included at the end of this draft document for ease of reference.

1.0 Policy

It is the policy of the City of Falls Church Basic and Police Pension Plans' Retirement Board to invest the assets of the fund in a manner which will meet the Plans' objectives and conform to all applicable federal, state and local laws.

2.0 Scope

This investment policy applies to all the financial assets of the Plans.

3.0 Objectives

3.1 Funding

The primary objective of the City of Falls Church Basic and Police Pension Plans' Retirement Board is to maintain the assets of the Plans at a funding level equal to at least 100% of the pension benefit obligation throughout the City's budgetary and economic cycles, while minimizing the City's required contribution rate. To obtain this objective the Board will diversify Plan assets and adopt a moderately aggressive investment posture relative to other retirement systems.

The City and employee contributions in each fiscal year will be no less than 100% of the annual Final Actuarially Determined Contribution (Final ADC) for that fiscal year as determined by the plan's actuary, based upon actuarially sound methods and assumptions. In addition, except as noted below, the Preliminary Actuarially Determined Contribution (the contribution amount determined before any reduction due to the City's Election) in each fiscal year will be no less than 75% of the plans' actuarially determined normal cost (Minimum Contribution Override), determined based upon actuarially sound methods and assumptions. The City may disregard the Minimum Contribution Override (but not the Final ADC requirements) only if the Plan's actuary certifies that the plan is more than 150% funded at the beginning of the fiscal year, based upon the Regular Plan Assets (actual market value of assets in the plan minus the Water Sale Money) on the first day of the fiscal year.

The actuarial assumptions and methods will be established in consultation with relevant experts to include, but not intended to be an exclusive list:- actuary, investment/ financial consultant and legal counsel.

Commented [CN2]: I assume legal counsel is the right term? Or lawyers?

The capitalized terms in the preceding paragraph are defined in the Water Sale Administrative Manual adopted by the Retirement Board May 14, 2020. That manual, in current and adopted form, is incorporated into this policy by reference.

3.2 Return

The Plans' asset allocation shall be designed with the objective of generating a return that exceeds the annual rate of inflation by at least 4.5% through economic cycles, commensurate with legal constraints, investment risk constraints and cash flow characteristics of the portfolio.

3.3 Safety

The board's goal is to diversify assets among asset classes as well as select investment managers with differing styles of management to provide for the opportunity to optimize the risk/reward characteristics and to have above average returns for the risks that are taken.

3.4 Liquidity

The City of Falls Church Basic and Police Pension Plans' investment portfolio in combination with the projected net cash flows of the Plans will provide sufficient liquidity to enable the Plans to meet all operating requirements which may be reasonably anticipated.

4.0 Authority and Fiduciary Responsibility of the Board

4.1 Legal Authority

The authority and responsibility for the administration, management and operation of the Plans are vested in the Board as described in the City Ordinance # 1802 and City Code, Sections 30-115 and 30-116.

4.2 Prudence

Board members have a fiduciary duty to the Plans and the participants and beneficiaries, which requires integrity and competence. Integrity requires management of the Plans and the assets for the exclusive benefit of the Plans' participants and beneficiaries, and disclosure as outlined in Section 4.3 (below). The required level of competence is that of a prudent person. This standard of competence extends to the retention and supervision of expert investment advice and all other areas of Plans' management. If Board members have special skills or expertise, they are under a duty to use them.

4.3 Ethics and Conflicts of Interest

Board members, staff, investment managers, and consultants shall refrain from engaging in any activity that impairs (or has the potential to impair) their ability to make impartial investment decisions for the Plan. Persons who nevertheless engage in such conduct immediately shall disclose the conduct to the Board. Board members, staff, investment managers, and advisers shall also immediately disclose to the Board any activity engaged in by their respective firms, employers, employees, and agents which conflicts (or has the potential to conflict) with the execution of the Board's investment program for the Plan.

Board members shall be in compliance with the City of Falls Church Retirement Board Ethics Policy that was adopted on August 19, 2010, modified on February 12, 2015 and affirmed on August 17, 2017, February 21, 2019 and February 20, 2020.

5.0 Investment Structure, Responsibilities, and Administration

5.1 Investment Responsibilities

The Board shall review the purchase and sale of the Plans' investments, the hiring and firing of outside professionals to assist the board in fulfilling its obligations to the Plans, the development of investment strategies, and the development of investment policies, guidelines, and procedures for all aspects of the Plans, including the external investment managers. Only the Board shall have the authority to make decisions regarding those issues and to oversee the investment program for the Plans.

In the event there are monies of the Plans that have not been allocated to professional investment managers, then the Board will be responsible for reviewing and making allocation regarding such monies.

5.2 Investment Consultant

The Board will engage the services of a professional Investment Consultant to assist the Board in investment related matters, including evaluating and retaining a master custodian, investment managers and other professionals.

5.3 Custodian

The Board shall retain a Custodian to hold the Plans' securities, settle transactions and be the official record keeper for all practical investments and transactions of the Plans. The Custodian shall register all securities in its nominee name and provide the Board with satisfactory evidence that the securities are owned by the Plans.

5.4 Investment Managers

The Board will retain experienced professional investment managers to directly manage monies of the Plans and carry out the asset allocation decisions of the Board.

5.5 Investment Transaction Monitoring

The Administrator will monitor monthly all transactions reported by the Custodian and those reported by the Investment Managers.

5.6 Administration

All agreements for services provided to the Plans by the Investment Consultant, the Custodian, the Investment Managers and any other professionals shall be evidenced by a written contract between such professional and the Board. Such contracts shall be approved as to form by the City Attorney or outside Legal Counsel and include all significant operational and performance requirements related to the services that are to be provided.

5.7 Plan Administration Expenses

Any expenses paid from the Trust to reimburse the City for plan administration performed by City Staff, shall be reviewed annually. Any revisions shall be adopted by the Retirement Board.

Commented [CM3]: Currently the expenses (administration fees) are codified in the Plan Exhibit V and not updated in at least 16 years. Current language included at the end of this document within the exhibit and also herein:

"Expenses are assumed to be .5% of plan assets plus an allowance for plan administration performed by Human Resources staff. The allowance equals \$20,000 allocated between the Basic and Police pension plans according to the number of participants."

6.0 Authorized Investments

The assets of the Plans may only be invested in the investments described under City Resolution # 2019-34 (TR19-35) as adopted on October 28, 2019.

The Board has adopted and shall maintain specific investment guidelines which further define the nature and scope of investments which are permissible for the total Plans and each Investment Manager.

7.0 Uninvested Cash and Collateralization

If at any time the Plans shall hold uninvested cash, it shall be invested in money market funds designated by the Board from time to time for this purpose. If contrary to the foregoing policy, any monies of the Plans shall be deposited in such accounts, savings accounts, certificates of deposits or other deposits of a bank or other permissible financial institution, such accounts shall be collateralized consistent with the City Charter, State requirements and City policy requiring collateralization of all deposit liability owed to the City.

8.0 Asset Allocation

Each asset class, such as stocks and bonds, will be broadly diversified. The market for domestic stocks shall be represented by the Russell 3000 index, for international/emerging stocks by the MSCI AC World ex USA index, for real estate by the NCREIF-ODCE indexes, the market for bonds shall be represented by the Bloomberg Barclays Aggregate Bond Index and Infrastructure by the S&P Global Infrastructure index.

Short term fixed income investments, defined as fixed income issues maturing in less than one year, will be managed to add value.

Multiple investment managers will be employed. Allocations among the Investment Managers will be controlled by the Board, based upon market values, to maintain diversification and ensure investment policy guidelines are followed.

(1) The investment funds of the City's Basic and Police Pension Plans shall be invested in accordance with the following provisions:

(a) The investment plan assets shall maintain a "target" not to deviate outside an "allowable range" as follows:

Asset Class	Target	Allowable Range
Total Domestic Equities	51%	45%-59%
Consisting of:		
Large Capitalization Equities	39%	34%-44%
Mid Capitalization Equities	5%	3%-7%
Small Capitalization Equities	7%	5%-11%
Domestic Fixed Investments	16%	12%-20%
Total International Equities	19%	15%-23%
Consisting of:		
Developed Markets	15%	10%-20%
Emerging Markets	4%	2%-6%
Real Estate/Infrastructure	13%	11%-15%
Consisting of:		
Real Estate/REITS	8%	6.5%-10%
Infrastructure	5%	3%-7%
Cash	1%	0%-5%

(b) Drift in asset class value, which result in exceeding the above allowable range limits shall be corrected as soon as possible, but not less than quarterly.

9.0 Maturities

No restrictions will exist for maturities of fixed income securities. Fixed Income Investment Managers will manage their respective funds with characteristics as defined within their investment guidelines.

10.0 Internal Controls

The Board will establish, maintain and review prudent internal controls for the assets of the Plans, including those utilized by staff, investment managers and the Plans' master Custodian.

The City's Independent Auditor will annually review the adequacy and compliance of these control procedures and report their findings to the Board at the first meeting upon completion of the annual audit which is usually completed in November.

11.0 Performance Standards

All Investment Managers are expected to perform in the top half of managers with a similar orientation/style over time, with the exception of Passive Index Managers which should closely track the target index fund.

12.0 Reporting

12.1 Legal Requirement

All reporting and legal requirements noted in City, State or Federal law will be complied with.

12.2 Investment Consultant

The Board will have the Plans' Investment Consultant present to the Board a review of each Investment Manager's performance on a quarterly basis. This presentation will focus on how the current asset allocation mix and the Investment Managers accomplish their objectives, and will include an analysis of the Plans' total performance as compared to other plans and plans of similar asset allocation. In addition, the presentation will evaluate each Investment Manager's performance relative to Investment Managers with similar styles.

12.3 Investment Managers

At least annually, the Board will require each separately managed active Investment Manager to provide a report discussing its performance to the Board. The report shall describe whether and how each manager accomplished its objectives as defined in the applicable investment guidelines delivered to the Board.

In addition, on at least an annual basis, each separately managed active equity Investment Manager will be required to deliver to the Board a report on their voting of all proxies. Each separately managed active Investment Manager will also provide the Board with a written report on their use of brokerage commissions.

12.4 Custodian

On a monthly basis, the Plans' Custodian will provide to the City's Finance Department, the Plans' Investment Consultant and Investment Managers a complete account of all investment and cash related activity of the Plans, by manager, and for the Plans' assets under their supervision. This reporting will

include a market valuation of assets which will be used as a basis for evaluating performance.

12.5 Broker Commissions

The Board will annually review the Plans' cost of brokerage commissions at the first meeting of the New Year.

12.6 Actuarial Review

Each year the Board will obtain an actuarial valuation of the Plans which will include, per the Actuarial Standards of Practice, a description of the assumptions and methods as well as the rationale for each significant assumption.

The demographic assumptions will be based on a regular Experience Study commissioned by the Retirement Board, as well as the professional judgment of the Plan's Actuary.- In consultation with the Plan's actuary, the Experience Study will be completed every three to eight years. Based on the Experience Study results and recommendations of the Plan's Actuary, the Retirement Board shall adopt revisions to the demographic assumptions.

The economic assumptions shall be reviewed annually with the input of the Plan's Actuary and the Investment Consultant. Based upon their input, the Retirement Board shall adopt revisions to the economic assumptions.

13.0 Adoption, Review & Modification

The Plans' investment policy shall be adopted by Board action. The policy shall be reviewed annually with the assistance of the Plans' Investment Consultant, and upon the occurrence of one of the following events:

- Change in Investment Manager
- Change in financial adviser
- A significant change in asset allocation
- Occurrence of significant and/or material market event.

All modifications will be approved by the Board.

Excerpt from Basic Pension Plan pages 57 -59, Exhibit V, for reference;
(Police similar but not identical, recommend aligning)

EXHIBIT V

ACTUARIAL ASSUMPTIONS

Economic Assumptions

- (i) **Interest Rate** 8% per year
- (ii) **Salary Increases**
 - Across-the Board 5.0% per year
 - Merit and Longevity None
- (iii) **Social Security Wage Base** 4.0% per year
- (iv) **Consumer Price Index** 3.0% per year
- (v) **Expenses** Expenses are assumed to be .5% of plan assets plus an allowance for plan administration performed by Human Resources staff. The allowance equals \$20,000 allocated between the Basic and Police pension plans according to the number of participants.

Demographic Assumptions

- (i) **Mortality** 1983 Group Annuity Mortality Table (set ahead 3 years for post-disablement).

Sample Ages	Value of \$1 Monthly for Life		Future Life Expectancy (Years)	
	Men	Women	Men	Women
55	\$125.07	\$135.24	25.32	30.74
60	115.54	127.74	21.14	26.17
65	103.76	118.11	17.19	21.79
70	90.68	106.03	13.68	17.63
75	72.90	92.07	10.65	13.87
80	66.15	77.66	8.14	10.70

(ii) Disability

50% of the 1964 OASDI Table

Sample Ages	Percent Becoming Disabled Within Next Year
20	0.03%
25	0.04
30	0.06
35	0.07
40	0.11
45	0.18
50	0.30
55	0.50
60	0.81

(iii) Termination of Employment

Age-related rates

Sample Ages	Percent Terminating
18	22%
20	20
22	18
24	16
26	14
28	11
30	9
35	5
40	2
15	1
50	1
55	0

(iv) Retirement Rates

Age-related rates

Active Members Retiring within Year
Following Attainment of Indicated Retirement Age

Sample Age	Percent Retiring
55	20%
56	10
57	10
58	10
59	10

60	10
61	10
62	100

Actuarial Method Used for the Valuation

Normal Cost. The normal cost under the aggregate method is the amortization of the difference between the actuarial present value of future benefits over the actuarial value of assets. The amortization factor equals the present value of future compensation divided by current compensation. All gains and losses are rolled into the normal cost and are not calculated separately.

For this plan the actuarial present value of future benefits is less than the actuarial value of assets, so the normal cost is zero. As new participants are added to the plan, their present value of future benefits will decrease the surplus, and at some point in the future, there will be a normal cost.

Asset Method Used for the Valuation

The actuarial value of assets equals the market value of assets as of the valuation date, plus or minus an adjustment. The adjustment is based on the difference between the actual market value of assets and the expected value of assets in each of the last four years. A weight of 20% is given to the difference from 4 years ago, 40% to the difference 3 years ago, 60% to the difference 2 years ago and 80% to last year's difference. The actuarial value of assets must be within a 20% corridor of the actual market value of assets.